



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION IX
75 Hawthorne Street
San Francisco, CA 94105

June 29, 2005

Commander Mark Prescott, Chief
Deepwater Ports Standards Division (G-MSO-5)
U.S. Coast Guard
Department of Homeland Security
2100 Second Street, S.W.
Washington, D.C. 20593

Re: Air Permit Application for Proposed Cabrillo Port

Dear Commander Prescott:

This letter is to inform you of our plans for moving forward with Clean Air Act permitting for the BHP Billiton LNG International, Inc. ("BHP") Cabrillo Port project pursuant to the Deepwater Port Act. Since the release of the Draft Environmental Impact Statement/Environmental Impact Review ("DEIS/DEIR") for the Cabrillo Port, EPA has continued to work with BHP to refine the details of the project to be proposed and to work with the Ventura County Air Pollution Control District ("District") and the California Air Resources Board ("CARB") to identify the air quality permitting requirements for such a project. As outlined below, the project now proposed by BHP includes a number of commitments to achieve emission reductions from both offshore and onshore sources. Our current plan is to propose an Authority to Construct under District Rule 10, which requires permits for the construction of all emission units. We will incorporate additional permit conditions in accordance with District Rule 29 to assure compliance with applicable federal, state and local requirements. Based on the latest information provided by BHP on May 24, 2005, the emissions from the floating storage and regasification unit ("FSRU") will be 67.2, 169 and 24.8 tons per year of nitrogen oxides ("NOx"), carbon monoxide ("CO") and volatile organic compounds ("VOC"), respectively. We believe the applicable local rules do not require these emissions to be offset.

Nonetheless, the proposed project will include a number of elements to minimize its impacts on air quality. In this letter, we have summarized the commitments from BHP that should be reflected in the record for the DEIS/DEIR. We are enclosing a copy of BHP's June 7, 2005 letter to EPA outlining these same commitments (enclosure 1).

Controls on the submerged combustion vaporizers and internal combustion engines. On May 9, 2005, with supplements dated May 24 and May 27, 2005, BHP finalized its analysis of air emissions controls using the District rules for determining Best Available Control Technology ("BACT"). BHP's proposed project will control NOx emissions

from the internal combustion engines using selective catalytic reduction and will meet a NOx emissions limit of 8.9 ppmv. These engines will also be equipped with oxidation catalysts to control CO emissions. BHP will control NOx emissions from its submerged combustion vaporizer using low-NOx burner technology that will meet a NOx emission limit of 20 ppmv. We are enclosing a copy of BHP's most recent BACT analysis (enclosure 2), but encourage you to ensure that BHP has submitted its latest data and analyses associated with air impacts and permitting for the DEIS/DEIR record.

Commitment to use natural gas as fuel for all vessels. In lieu of diesel or bunker fuel, BHP has committed to use natural gas as the fuel for all carrier vessels while in U.S. waters and for all supply/crew vessels, tugs and other FSRU support vessels. BHP has submitted data comparing vessel emissions rates from various fuels. We are also enclosing a copy of this comparison (enclosure 3).

Commitment to minimize diesel fuel use on the FSRU. The submerged combustion vaporizers will operate exclusively on natural gas, and the internal combustion engines will use natural gas as their primary fuel. The project will include one internal combustion engine and several pieces of emergency equipment capable of operating on diesel fuel in the event of an emergency or in the event natural gas is not available. Any diesel used at the FSRU will meet California low-sulfur fuel standards to minimize potential emissions.

Onshore emission reduction projects. BHP will finalize plans to convert at least 45 garbage trucks used in Ventura County from diesel fuel to natural gas. BHP has also committed to explore and implement additional cost-effective emission reduction opportunities onshore up to the FSRU's annual NOx emissions. We will continue to work with BHP, the District and CARB to identify other potential emission reduction projects. We hope to identify these emission reduction opportunities before issuance of the air permit and anticipate these air quality enhancement projects will occur prior to commencement of operation of the BHP LNG project.

Natural gas quality standards. Finally, BHP has committed to explore limiting the heat content of the natural gas it imports. Such limits would reduce NOx emissions created from the combustion of this natural gas at other sources. At a minimum, BHP has committed to meet or exceed all natural gas pipeline quality standards applicable at the point of introduction.

Based on our further analysis of the Deepwater Port Act and the District rules, we have concluded offsets are not required for sources constructed in the area where BHP plans to site its FSRU, which is approximately 14 miles offshore from Ventura County. The District rules, generally speaking, include two sets of requirements - one for sources constructed on or near shore and one for sources constructed on the Channel Islands designated unclassifiable/attainment within the South Central Coast Air Basin. Since the proposed facility will be located in an area that falls between these two areas, EPA must exercise its discretion to determine which of these

two sets of requirements is more appropriately applied to the FSRU. As a result of this consideration, we plan to propose to permit the BHP facility in the same manner as sources in the federal attainment area would be permitted (i.e., in the same manner as sources on the Channel Islands). The applicable permit requirements, therefore, do not include a requirement to offset emissions from the new source/FSRU. Nonetheless, as described above, BHP has committed to reduce air emissions from their tankers, support vessels and FSRU equipment, and to pursue onshore emission reductions equivalent to the FSRU's annual NOx emissions.

The October 2004 DEIS/DEIR should be updated to reflect this new information on BHP's Port Cabrillo project. In particular, discussions on the elements of the project should be updated to reflect BHP's recent commitments, and statements regarding the need for offsets should be revised to reflect EPA's current understanding of the applicable District permitting requirements. If you have any questions on this matter or need any additional information from EPA, please contact Gerardo Rios at (415) 972-3974.

Sincerely,

Amy K. Zimpfer, P.E.
Associate Director
Air Division

enclosures

email distribution (enclosure 3 attached):

Mark Prescott, US Coast Guard
Frank Esposito, US Coast Guard
Francis Mardula, MARAD
Mike Villegas, Ventura County APCO
Mike Scheible, California Air Resources Board
Cy Oggins, State Lands Commission
Renee Klimczak, BHP Billiton